NEW YORK CITY COMPTROLLER
BRAD LANDER

Holiday Spotlight

New York City's Retail & Consumer Services Cluster

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1 Centre Street, New York, NY 10007
(212) 669-3916 | www.comptroller.nyc.gov

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Introduction

With the holiday season upon us, there's one sector of the economy that will touch many New Yorkers more than usual this month: Retail.

When the COVID-19 pandemic struck New York City in 2020, the ensuing loss of life and economic disruption were unprecedented in modern times. In April alone, an estimated 15,000 people died from COVID and nearly 900,000 jobs were lost. While that turned out to be the worst month, economic effects of the pandemic persisted. At the outset, the hardest hit segments of the economy were retail (e.g. bookstores, clothing shops, department stores) and consumer services (e.g. restaurants, nail salons, gyms). These businesses are important to the city on a number of dimensions: they provide substantial tax revenue (largely from sales taxes but also through property taxes, income taxes, and commercial rent taxes); they provide many jobs, especially entry-level ones; and they provide much of the street-level vibrancy that makes New York City a dynamic place to live, work, and visit. And, of course, some of these businesses provide goods and services that will make many holiday-celebrating children happy this month.

This month's Spotlight takes a closer look at this group of businesses—henceforth referred to as the "**Retail & Consumer Services cluster**"—and how it fared before, during, and after the pandemic. We focus on this large cluster's composition, trends in employment and wage income, generated tax revenues, and the market for retail space.

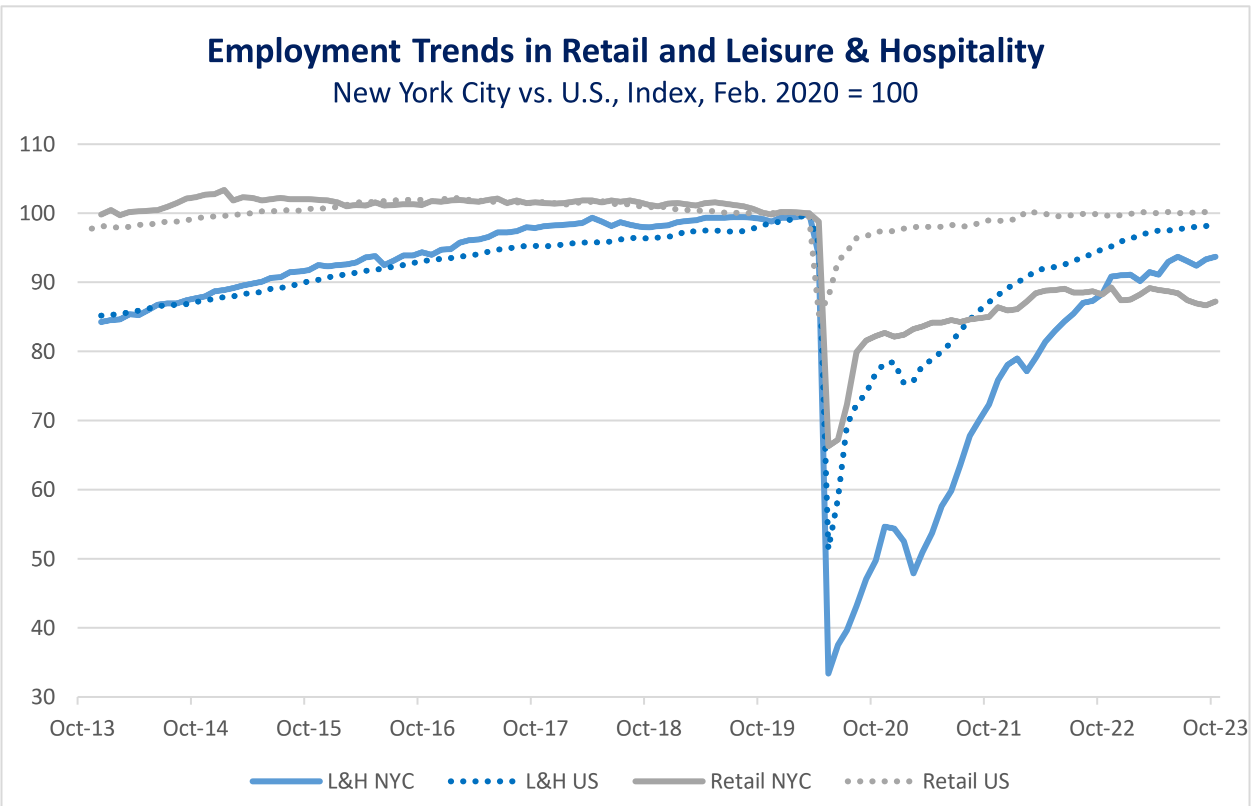
What Does This Cluster Comprise?

It is important to start off by defining this industry cluster. First, we include everything that the government classifies as Retail Trade, including electronic shopping. Even though these businesses don't necessarily use retail space, they compete with conventional "brick and mortar" retail shops, and still generate tax revenue and jobs (although fewer of both in New York City). This category also includes businesses that people may not always think of as retail, such as gas stations and auto dealers. Government jobs data classify Retail Trade to include stores that sell various durable goods and consumer products. Businesses such as restaurants, bars, nail salons and gyms, also a major component of local consumer spending, are including in the category of Leisure & Hospitality, which we will also explore.

Chart 1 shows local and national employment trends in these two major sectors over the past decade. Employment in Retail Trade had been flat-to-slightly-declining in the years leading up to the pandemic—both nationally and locally. Locally, it tumbled by roughly a third at the start of the pandemic—much more than nationwide—and it has rebounded only partially. The Retail Trade indexes below include both electronic shopping jobs, which had been rising before the pandemic, and "brick & mortar" retail jobs, which had been declining. Because brick-and-mortar retail tends to be far more labor-intensive than electronic (digital) retail, the ongoing relative shift toward the latter tends to have a downward effect on Retail Trade employment overall.

In contrast, employment in the Leisure & Hospitality sector—which largely comprises restaurants and bars but also hotels and various other service businesses involved in arts, entertainment and recreation—had been in a modest growth trend prior to the pandemic, both nationally and locally. Early in the pandemic, as shown in Chart 1, this sector sustained far steeper losses even than retail, and steeper locally than nationally. Since the pandemic, the city has lagged the nation in both sectors. Retail Trade employment, which appears to have plateaued nationally at pre-pandemic levels, appears to have leveled off locally at almost 15% below pre-pandemic levels. Leisure & Hospitality has fared considerably better, especially over the past two years: employment has continued to trend up modestly locally, though it is still about 5% below pre-pandemic levels—a considerably milder shortfall than in Retail Trade but still lagging the Leisure & Hospitality sector nationwide, where employment has fully recovered.

Chart 1



Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics, Moody's economy.com

While Leisure & Hospitality can serve as a reasonable rough proxy for consumer services, we fine-tune the criteria for this Spotlight, excluding some industries from this broad sector and adding a few from outside that sector. We delineate what do we do and don't include in this cluster and explain the rationale in the Appendix.

How Big Is this Cluster & its Components?

To gauge the size and importance of the city's Retail & Consumer Services cluster, as well as its various components—and how they have evolved over time—we focus on three types of metrics: employment, wage & salary income, and taxable sales. Table 1 below shows the size of this entire cluster and its share of each metric city-wide in 2022. It represents 18% of private-sector jobs citywide, but a much lower 8% of wage & salary earnings. This is because wages tend to be well below the citywide average. It might seem surprising that the whole industry cluster accounts for less than half of all taxable sales. This is because a substantial amount of sales tax revenues come from electric utilities, cable, internet & phone services, transportation services, and similar businesses outside the retail and consumer services cluster as defined here.

Table 1: Size of the Retail & Consumer Services Cluster

	Total NYC	Retail & Consumer Services	
	Level	Level	% of Total
Private Employment (Thous.)	3793.9	669.3	18%
Private Wage & Salary Earnings (Billions)	$442.9	$33.3	8%
Taxable Sales (Billions)	$215.0	$100.7	47%

Sources: New York State Department of Labor; New York State Department of Taxation and Finance

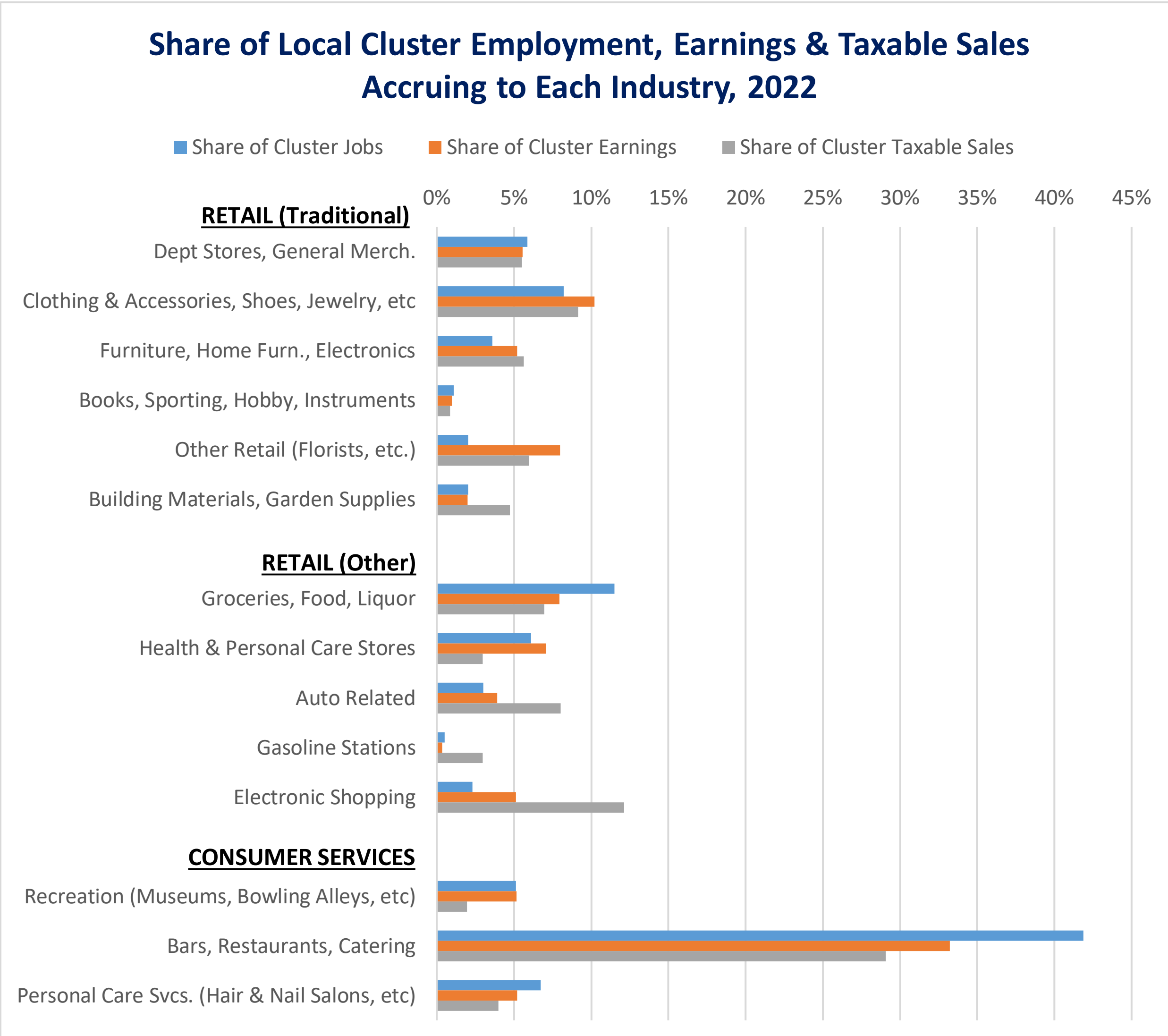
Chart 2 below breaks down the various segments of Retail & Consumer Services in terms of employment, wage & salary earnings, and taxable sales.

What we think of as "traditional retail," which includes electronics, clothing, general merchandise, books, home furnishings, etc., altogether accounts for about 23% of these jobs and a slightly smaller share of earnings. These are largely segments of retail that tend to be more susceptible to electronic shopping, and also were most susceptible to shutdown during the pandemic. These segments account for just under a quarter of employment and earnings but nearly 40% of taxable sales. Most sales at these retailers, aside from lower-priced apparel, are taxable—i.e. subject to local sales taxes.

Grocery, specialty food, and liquor stores tend to be less affected by electronic shopping, and also they were less affected by the pandemic, as we will see later. This segment accounts for 12% of total retail & consumer services employment and 8% of earnings. Since many groceries are not taxable, this group accounts for only 7% of the cluster's taxable sales. For the same reasons, health & personal care stores also account for a relatively low share of taxable sales; but because they employ more highly trained people, such as pharmacists, they account for a higher share of earnings than jobs. Though one tends not to think of them as retail in a traditional sense, gas stations and auto-related businesses (dealers, as well as repair & maintenance) are also classified as retail. Together, they account for under 5% of employment and earnings but roughly 11% of taxable sales.

Turning to the consumer services area, restaurants account for more than a third of the jobs—42% when you include bars and food services—but a lower share of earnings and taxable sales. Recreation and personal care service firms each account for roughly 5% of employment and earnings but a somewhat lower share of the sales tax base.

Chart 2



Sources: New York State Department of Labor, New York State Department of Taxation and Finance

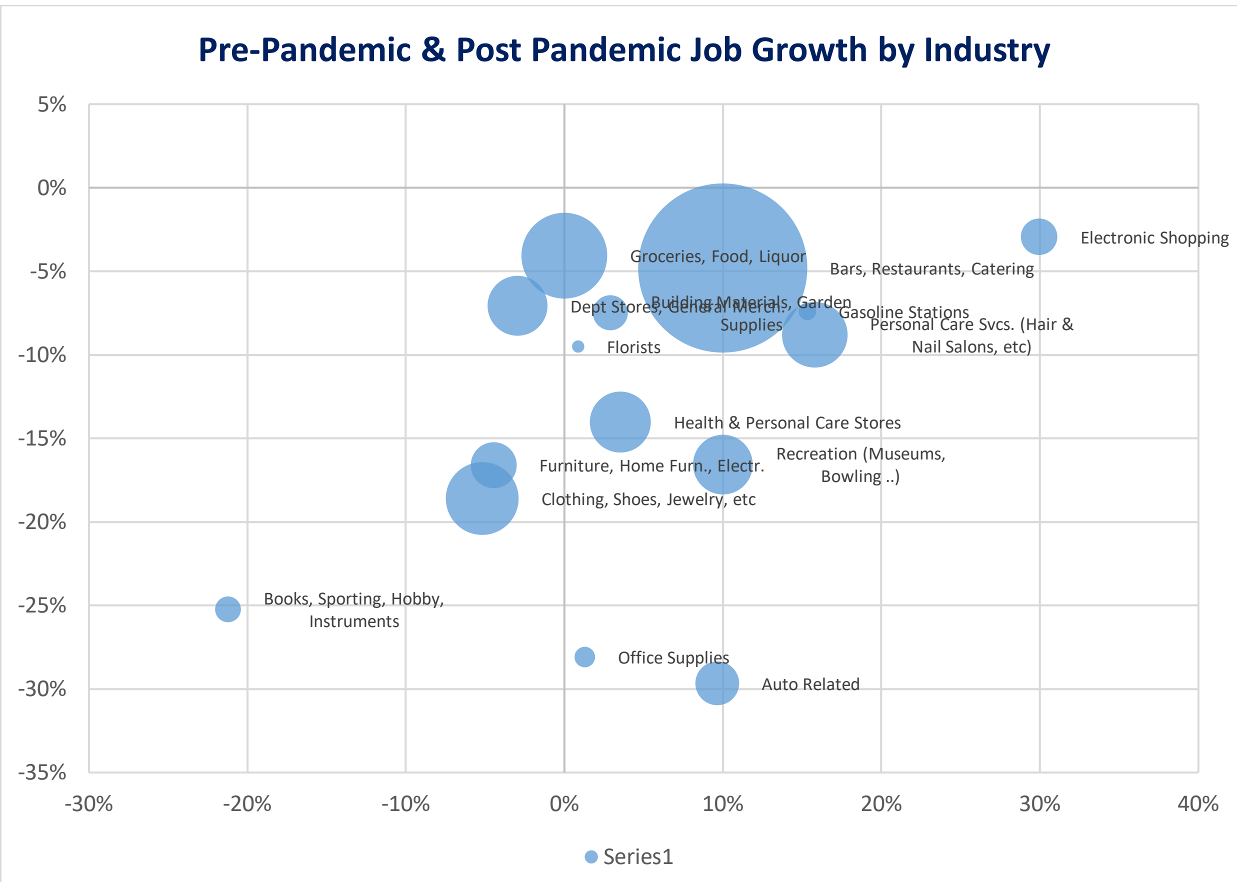
Trends in Employment

In this section, we focus on recent and longer-term changes in our Retail & Consumer Services cluster, as well as in its component segments, as measured by employment and earnings. Chart 3 shows pre-pandemic and post-pandemic job growth across the various industries in our cluster. The size of each "bubble" represents the size of that industry (in terms of number of jobs) in

2019; the horizontal position represents the *pre-pandemic* percent change in employment (2015Q2-2019Q2); and the vertical position represents the percent change in employment *since the year before the pandemic* (2019Q2-2023Q2).

Several patterns emerge here. First, a number of traditional retail categories—e.g. clothing stores, bookstores, department stores—had seen job declines prior to the pandemic, and steeper declines since. But even the categories that saw job gains before the pandemic—e.g. electronic shopping—have seen declines since. This likely reflects some blurring of lines between conventional and on-line retail, as more and more brick-and-mortar retailers have expanded their on-line presence, thus capturing some of the market back from purely electronic shopping platforms.

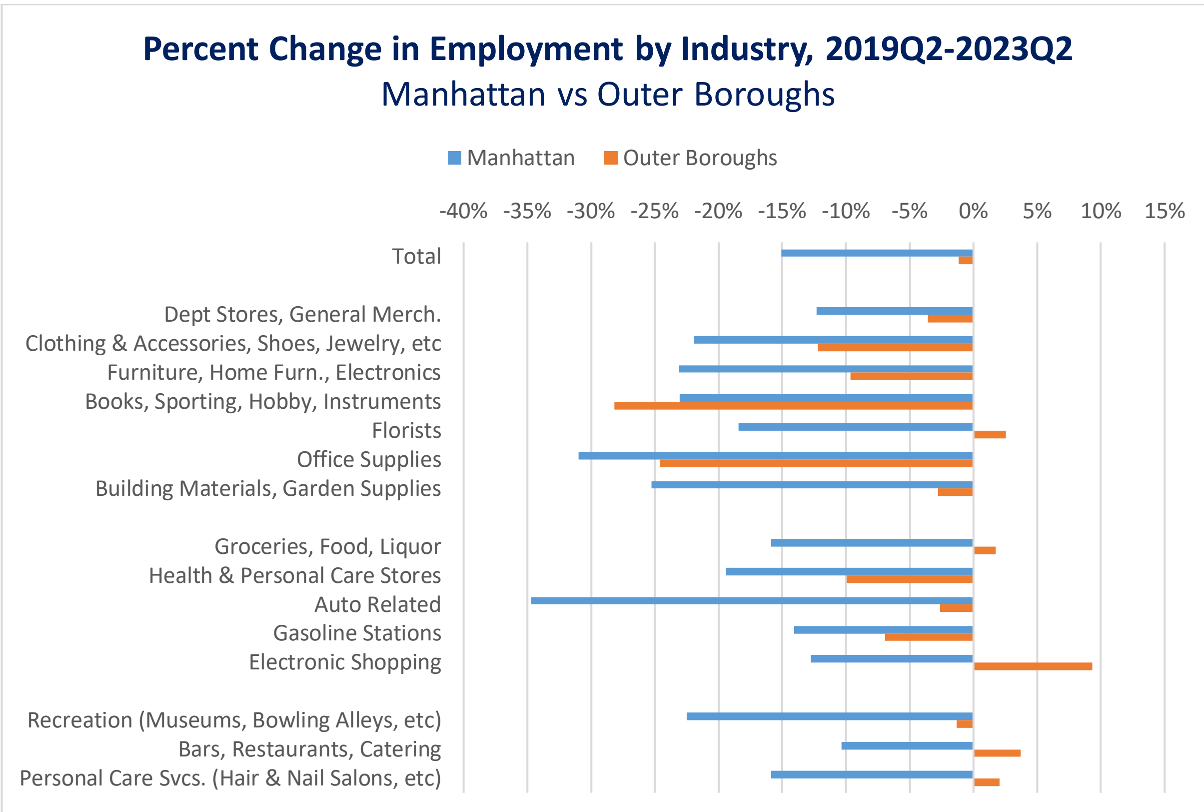
Chart 3



Source: New York State Department of Labor

One interesting divergence since the pandemic has been between Manhattan and the outer boroughs. Not only was Manhattan by far the hardest hit economically by the pandemic, but it has been the slowest to rebound, due to the steep decline in the number of office workers in the central business districts on a typical weekday. Thus, as shown in Chart 4 below, it is not surprising that employment trends since the pandemic (specifically between Q2 of 2019 and Q2 of 2023) have, almost without exception, been stronger in the boroughs than in Manhattan. In terms of net job creation (or loss), the difference is particularly striking for consumer service industries like Restaurants & Bars and Personal Care Services, which have grown in the outer boroughs, but declined precipitously in Manhattan. In the central business districts of Manhattan, these are the very types of businesses whose prime customers tend to be office workers.

Chart 4



Source: New York State Department of Labor

Wage & Salary Earnings and Equitable Growth

As we noted earlier, wages across these industries tend to be well below the citywide average, with the notable exception of electronic shopping[1]. Chart 5 shows average wages for the various

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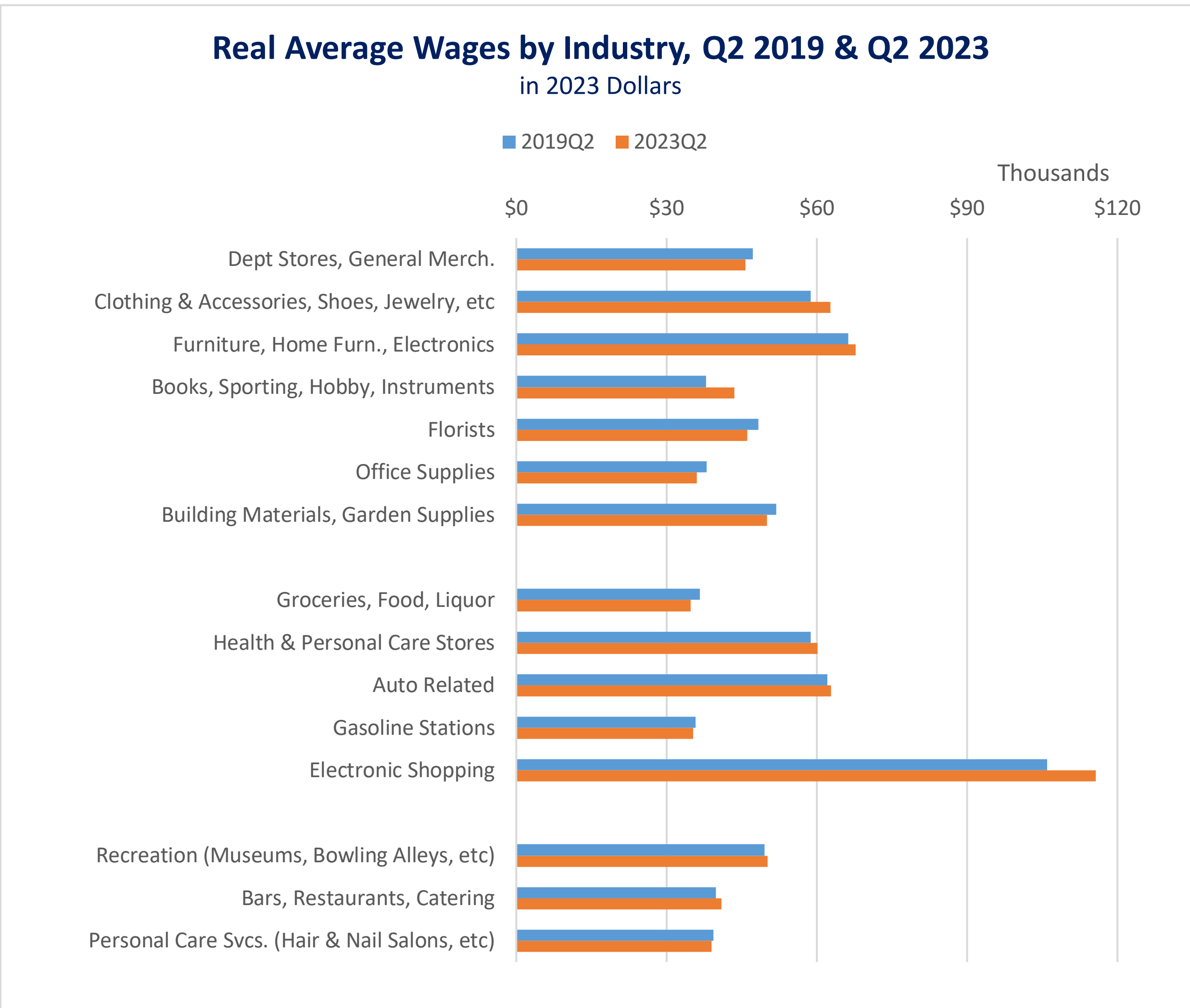
[1] Moreover, this is one of the few of these industries where real wages have risen significantly—that is, where wage growth substantially exceeded inflation. While this industry accounts for a sizable and growing share of taxable sales, it accounts for less than 3% pandemic of jobs across the whole cluster.

industry segments comprising our cluster for the second quarter of 2023 (latest data available) and for the same quarter of 2019, adjusted for inflation.

For most industries in our cluster, wages are not only relatively low, but they have also barely kept up with inflation. From 2013 to 2019, the minimum wage was increased every year and, over the 6-year period it more than doubled for larger businesses and rose 86% for small employers. However, since 2019, the minimum wage has remained unchanged at $15, even as the Consumer Price Index rose by roughly 20%.

So, not only is employment lower than before the pandemic, but those who are still employed have not seen any significant increase in pay, on average, after adjusting for inflation.

Chart 5



*Annualized wages based on 2nd quarter.

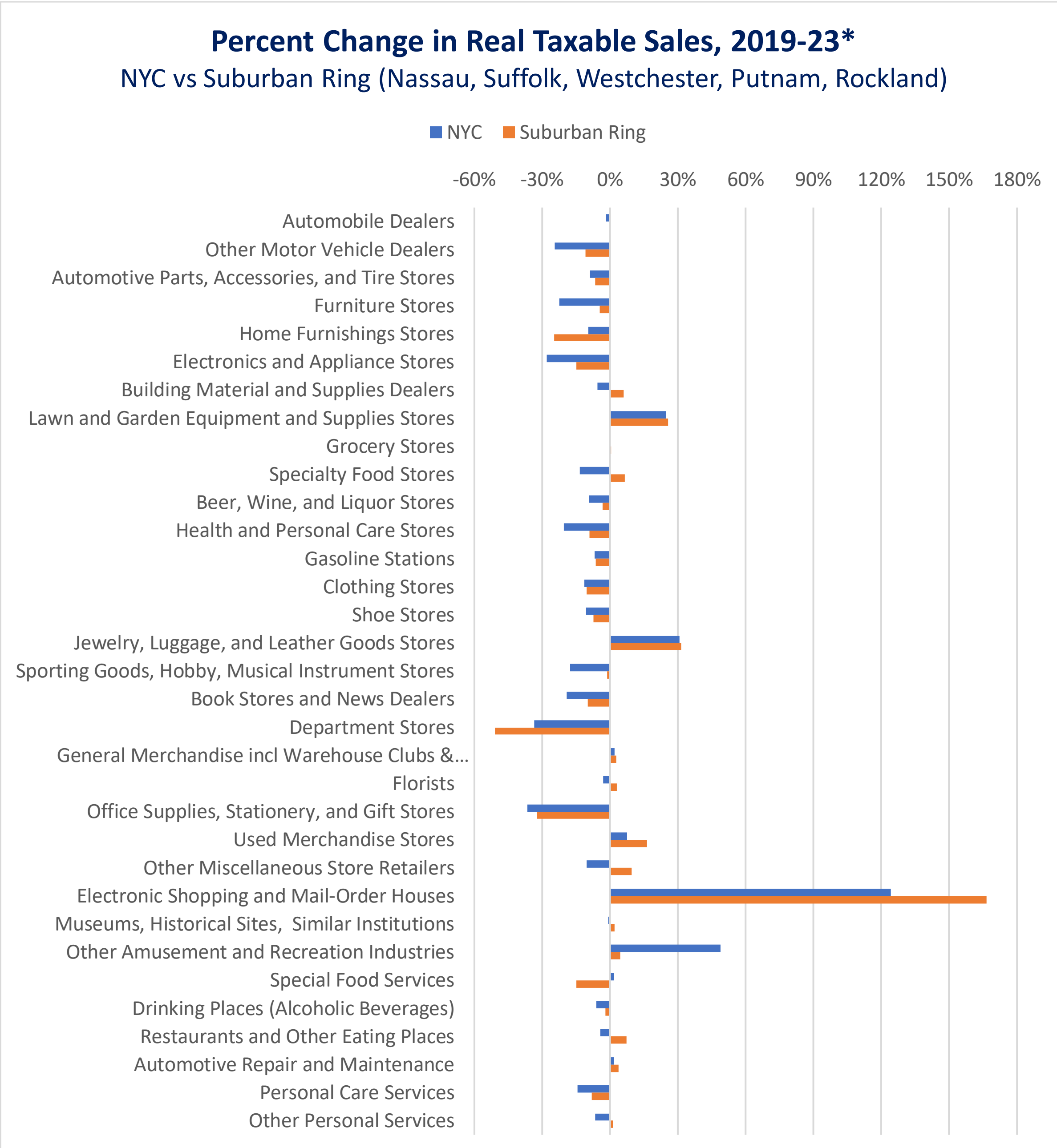
Source: New York State Department of Labor

Trends in Taxable Sales

Earlier, we briefly looked at the relative shares of taxable sales coming from various segments of our cluster. While reliable, high-frequency retail sales data are not available at the local level, state and local sales tax tabulations can serve as a good proxy for trends in local consumer spending activity, as well as for fiscal implications. Moreover, these data are available for specific industries down to the 4-digit industry codes based on NAICS—the North American Industry Classification System. Using this data set, for example, one can gauge how well business is going at bars, restaurants, department stores, online retailers, etc. While these statistics are not broken out by borough, they are broken out by county outside New York City. Thus, we can assess not only how business is going in New York City but also how it compares with business in the surrounding counties – specifically, Westchester, Nassau, Suffolk, Rockland, and Putnam. Given that the pandemic disrupted retail and consumer service spending everywhere – but most prominently in New York City – we look at how various industries have fared this year compared with 2019 (before the pandemic).

Chart 6 below shows the percentage change in taxable sales for *detailed* industries included in our cluster from 2019 to 2023 – specifically for the February to August period in each year, for seasonal consistency. Most of these industries saw growth in sales both in and outside New York City, not surprisingly led by electronic shopping, where taxable sales almost tripled in New York City and more than tripled in the suburbs. However, very few of these industries saw New York City outperform the suburbs. This is analogous to shifts between Manhattan and the outer boroughs discussed above. [*Sales tax revenues are not broken out by borough*.] The exceptions were department stores and general merchandise stores, home furnishing stores, and entertainment & recreation.

Chart 6



*Based on taxable sales from February-August of each year; Inflation-adjusted using US Consumer Price Index.

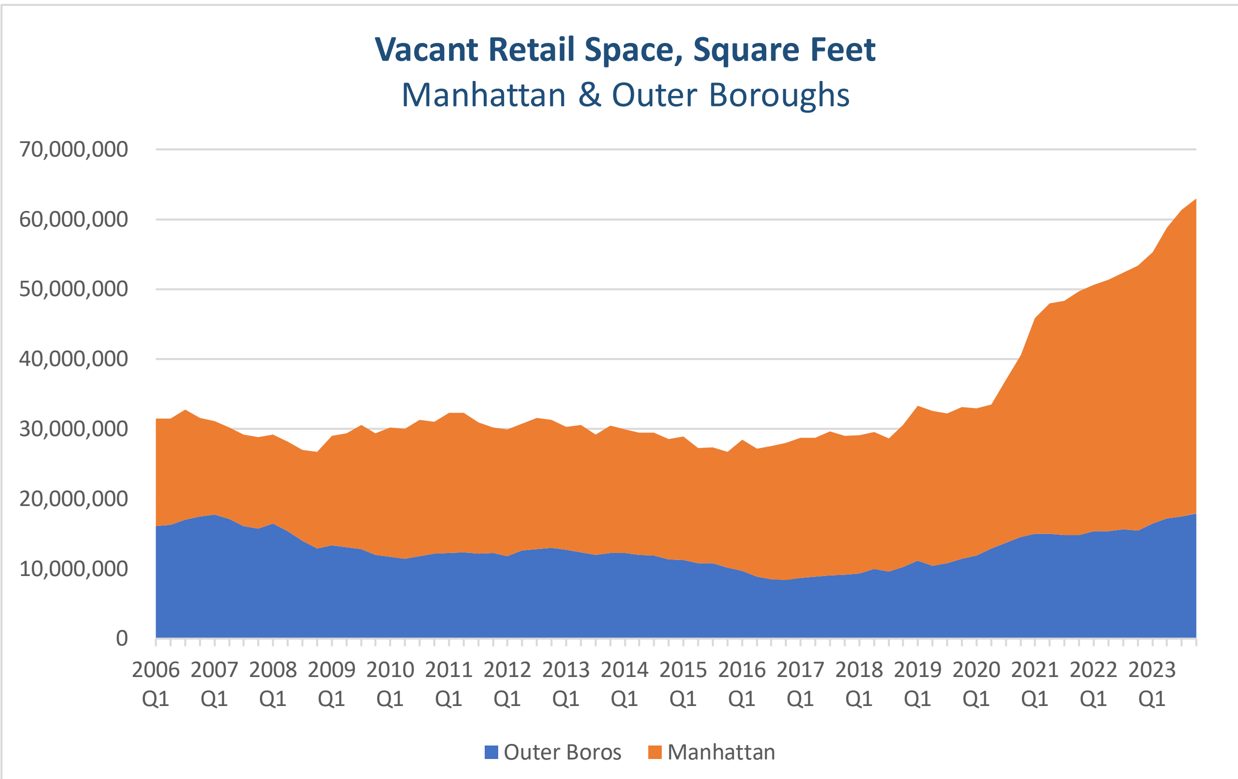
Source: New York State Department of Taxation and Finance; U.S. Bureau of Labor Statistics; Moody's economy.com

The Market for Retail Space

Another important dimension of the health of the retail cluster in New York City pertains to the retail component of the city's commercial real estate market. While much attention has been paid to the extreme slack that developed in the office market during and after the pandemic, the market for retail (i.e. storefront) space was also hit hard by the pandemic and has yet to fully rebound – particularly in Manhattan[2].

As shown in Chart 7 below, retail vacancies were trending up even before the pandemic; surged early in the pandemic; and have continued to rise, much more so in Manhattan than in the outer boroughs. Increased supply may a factor in addition to weaker demand. In the past few years a tremendous volume of retail space has been developed – largely in new office buildings in developments like Hudson Yards.

Chart 7



Source: CoStar

[2] Demand for retail space extends beyond traditional retail, and the way it is defined does not line up exactly with our other metrics across industries in our Retail & Consumer Services cluster. For example, while gas stations are included in Retail Trade employment and sales, their physical footprint is not counted as retail space, for obvious reasons. There are also other types of consumer-facing businesses in our cluster—such as gyms, museums, and bowling alleys—that have unique types of space that are not easily convertible to or from other uses. Conversely, businesses that we did not include in our cluster—such as banks, urgent care centers, and schools, for example—do tend to use conventional retail space. Thus, for example, if a pharmacy or bookstore were to close down, the space it vacated could, with some alterations, be readily occupied by an urgent care center or a bank. Nevertheless, the health and performance of this market is largely driven by our Retail & Consumer Services cluster.

Fiscal Implications

The performance of the retail cluster brings tax revenue to the city through a number of different channels: sales taxes, income taxes, business taxes, commercial rent taxes, and property taxes. While employment and wages have not fully recovered and the market for retail space remains slack, the fiscal fallout has not been severe.

Most notably, while the shift to electronic shopping has had an adverse effect on the labor market in retail and consumer services – specifically the level of employment and wage earnings – it has not put a dent in taxable sales and thus **sales tax revenues**. Looking at the latest six months of available data (February-August 2023), overall taxable sales from this cluster are up 19% from comparable 2019 levels – roughly keeping pace with overall inflation. As we saw earlier, the increase was mainly driven by electronic shopping. Moreover, this increase is likely to be revised up somewhat, as some late reporting of taxable sales typically trickles in for a number of months.

Gauging how much **personal income tax revenue** derives from particular industries is difficult. However, as we noted earlier, this cluster accounts for about 8% of total private-sector wage & salary income. And because jobs in this cluster tend to pay below-average wages, many of these wage-earners tend to be in lower tax brackets. Thus, this cluster has always accounted for a relatively small percentage of personal income tax revenues, and the lagging levels of employment and sluggish growth in wages have had only a modest negative effect.

Business income tax revenues from this cluster account for only about 10% of business taxes payments, and, interestingly, are actually running well *above* pre-pandemic levels, as shown in Table 2 below. This gain is likely driven by electronic shopping.

Table 2: Business Income Tax

	Thousands of Dollars		
Business income taxes payments	**2019**	**2022**	**% Change**
Finance and insurance	$2,428,421	$3,378,746	39.1%
Real estate	$586,280	$600,052	2.3%
Services	$2,296,108	$2,619,401	14.1%
*Recreation**	*$205,548*	*$148,424*	*-27.8%*
Food services	*$107,387*	*$93,431*	*-13.0%*
Personal services	*$44,397*	*$53,078*	*19.6%*
Repair/maintenance	*$16,760*	*$14,328*	*-14.5%*

Business income taxes payments	Thousands of Dollars		% Change
	2019	2022	
Information	$557,783	$698,345	25.2%
Trade	$579,788	$834,968	44.0%
Retail	*$350,012*	*$513,666*	*46.8%*
Manufacturing	$274,385	$481,695	75.6%
Other	$418,575	$483,105	15.4%
Total for Cluster (shown in red)	**$724,104**	**$822,926**	**13.6%**
Total	**$7,141,339**	**$9,096,313**	**27.4%**

* Includes Amusement and Performing arts

Source: NYC Department of Finance

Commercial Rent Tax (CRT) collections from our cluster appear to have taken a fairly steep hit, as shown in Table 3 below, falling more than 9% but from a very small base. These taxes are targeted toward larger, high value businesses. In general, the CRT is imposed on rent paid by tenants who occupy or use real property for commercial purposes in Manhattan south of 96th Street (hard hit by the pandemic) and annual rent above $250,000 (thus exempting most small "mom & pop" type businesses). A number of programs reduce the tax liability for small businesses, not-for-profits, tenants located in Lower Manhattan and the World Trade Center Area, or eligible for the Commercial Revitalization Program (see NYC DOF's instructions)[3].

[3] The data used in this spotlight is from NYC DOF's annual Statistical Profiles. The years in the table refer to liability years, which run from June to May. For tax expenditure details, see NYC DOF's annual Tax Expenditures Reports.

Table 3: Commercial Rent Tax

Industry	2023*			2019-2023 % change		
	Taxpayers	Premises	Liability ($000s)	Taxpayers	Premises	Liability
Finance and Insurance	1,515	2,240	$232,813	-7.20%	-8.70%	-10.90%
Real estate	287	417	$36,946	-7.40%	11.50%	46.50%
Services	3,474	4,414	$300,318	-12.70%	-13.10%	8.70%
Food services	*794*	*1,111*	*$24,172*	*-10.90%*	*-11.10%*	*-5.90%*
*Recreation***	*201*	*255*	*$19,089*	*-15.50%*	*-22.30%*	*5.90%*
Personal services	*284*	*338*	*$9,124*	*-20.00%*	*-20.30%*	*-8.30%*
Information	439	846	$100,515	-19.70%	-13.80%	12.20%
Trade	1,316	2,421	$176,579	-26.50%	-25.10%	-10.70%
Retail trade	*773*	*1,676*	*$136,768*	*-30.90%*	*-28.40%*	*-11.70%*
Manufacturing	271	420	$35,658	-19.10%	-19.10%	-2.50%
Other	238	319	$13,275	-38.70%	-24.80%	26.80%
Total for Cluster (shown in red)	**2,052**	**3,380**	**$189,154**	**-21.10%**	**-22.20%**	**-9.30%**
Total	**7,540**	**11,077**	**$896,103**	**-16.00%**	**-15.20%**	**-0.10%**

* Preliminary

** Includes Performing arts/museums and Amusement.

Source: NYC Department of Finance

Finally, measuring the amount of **property tax revenue** derived from Retail & Consumer Services is difficult – particularly in Manhattan, where most of these establishments are storefronts contained within (and taxed as part of) office or apartment buildings. However, with hundreds of millions of square feet of space across the city, this is clearly a major contributor to tax revenue.

Conclusion

New York City's Retail and Consumer Services cluster has endured a challenging few years since the onset of the pandemic. Following a steep drop-off by many measures – employment, earnings, sales, space usage – this industry cluster has clawed its way back to near pre-pandemic levels. However, it still has a long way to go to get even close to the growth trends of the years before the pandemic.

A decline in population at the beginning of the pandemic, along with a steep drop in the number of office workers in the city's central business districts on a daily basis as a result of remote and hybrid work, has taken its toll on this business cluster – especially in Manhattan. In contrast, the outer boroughs have held their own over this period, eking out a small employment *gain*. Trends in the outer boroughs look more like those in the surrounding suburbs than those in Manhattan.

Given both pre-pandemic and post-pandemic trends, the continued growth of electronic shopping, and the apparent durability of remote and hybrid work, it appears likely that a growing proportion of the city's retail space will be repurposed for consumer service businesses, as opposed to traditional retail—both in Manhattan and the outer boroughs.

Acknowledgements

This report was prepared by Jason Bram, Director of Economic Research, with assistance from Astha Dutta, Economic Data Analyst. Archer Hutchinson, Creative Director, led the design.

Appendix

In our Retail & Consumer Services cluster, in addition to the various industries that fall under Retail Trade, we generally include consumer-service businesses that tend to occupy the same type of commercial space as traditional retailers—as mentioned in the main body of this report, this includes restaurants, bars, gyms, nail salons, etc. In the government data classifications, these businesses mostly fall under Leisure & Hospitality. These businesses also generally contribute directly to local sales tax revenues. However, there are some consumer-facing businesses that we do not include for varying reasons. Within Leisure & Hospitality, we exclude accommodation (hotels), spectator sports, movie theaters, performing arts (i.e. live theaters), and a few other related industries. There is also a large consumer-facing industry that we exclude: Health Services. While an urgent care center might well occupy a space vacated by a bookshop or hardware store, we consider medical services to be fundamentally different than discretionary services and would be more inclined to view and analyze them alongside other types of health care establishments such as hospitals and home health care providers (which do not occupy traditional retail space). For similar reasons, we also exclude private education services (e.g. colleges, professional training, etc).

The table below specifies what we do and don't include. In 2022, the Department of Labor reclassified a number of retail industries into new NAICS (North American Industrial Classification System) codes, which we show in the 2nd column below; in most cases, they line up with the previous corresponding codes.

Table 4: Industry Composition of Retail & Consumer Services Cluster

What We Included

NAICS	Rev. NAICS*	Industry Name
4411		Automobile Dealers
4412		Other Motor Vehicle Dealers
4413		Automotive Parts, Accessories, and Tire Stores
8111		Automotive Repair and Maintenance
4421		Furniture Stores
4422		Home Furnishings Stores
4431		Electronics and Appliance Stores
4441		Building Material and Supplies Dealers
4442		Lawn and Garden Equipment and Supplies Stores
4451		Grocery Stores
4452		Specialty Food Stores
4453		Beer, Wine, and Liquor Stores
4461	4561	Health and Personal Care Stores
4471	4571	Gasoline Stations
4481	4581	Clothing Stores
4482	4582	Shoe Stores
4483	4583	Jewelry, Luggage, and Leather Goods Stores
4511	4591	Sporting Goods, Hobby, and Musical Instrument Stores
4512	4592	Book Stores and News Dealers
4522	4551	Department Stores
4523	4552	General Merchandise, incl. Warehouse Clubs & Supercenters
4531	4593	Florists
4532	4594	Office Supplies, Stationery, and Gift Stores
4533	4595	Used Merchandise Stores
4539	4599	Other Miscellaneous Store Retailers
4541	45999	Electronic Shopping and Mail-Order Houses
7121		Museums, Historical Sites, and Similar Institutions
7139		Other Amusement and Recreation Industries
7223		Special Food Services

NAICS	Rev. NAICS*	Industry Name
7224		Drinking Places (Alcoholic Beverages)
7225		Restaurants and Other Eating Places
8121		Personal Care Services
8129		Other Personal Services

What We Could Have Included But Did Not

NAICS	Industry Name
5221	Depository Credit Intermediation (Banks)
6214	Outpatient Care Centers
6211	Offices of Physicians
6212	Offices of Dentists
6244	Child Day Care Services
7111	Performing Arts Companies
7112	Spectator Sports
7113	Promoters of Performing Arts, Sports, and Similar Events
7114	Agents & Managers for Artists, Athletes, Entertainers, Other Public Figures
7115	Independent Artists, Writers, and Performers
7211	Traveler Accommodation (Hotels)
7212	RV (Recreational Vehicle) Parks and Recreational Camps
7213	Rooming and Boarding Houses, Dormitories, and Workers' Camps

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1 Centre Street, New York, NY 10007
www.comptroller.nyc.gov
@NYCComptroller
(212) 669-3916